



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: May 6, 2008

TO: Mayor and Councilmembers

FROM: Housing and Redevelopment Division, Community Development Department

SUBJECT: Predevelopment Loan To Transition House For New Affordable Units At 421 East Cota Street

RECOMMENDATION: That Council:

- A. Approve a \$100,000 loan of federal Home Investment Partnerships Program (HOME) funds to Transition House for predevelopment of a new low-income rental housing project located at 421 East Cota Street; and
- B. Authorize the Community Development Director to execute a loan agreement and related documents in a form acceptable to the City Attorney and to make non-substantive changes.

DISCUSSION:

Transition House seeks to construct new rental housing units on a portion of property they acquired with assistance from the City's Redevelopment Agency (Agency) in 1999, the site of the old Mom's Restaurant at 421 East Cota Street. Transition House requests a predevelopment loan from the City for architectural services in order to prepare preliminary plans for the proposed new units and to determine whether portions of the old Mom's Restaurant façade can be saved.

Preliminary Plans

Transition House plans have three components:

1. Transition House would like to build eight new residential units to be used as permanent rental housing for formerly homeless families graduating from transitional housing and job training programs that Transition House operates.
2. The ground floor of the proposed new building would feature an infant day-care center that would accommodate 25 infants.
3. Transition House also plans to carry out minor rehabilitation and other improvements to the eight existing affordable rental housing units they own next door at 425 East Cota Street.

The proposed new building would complete the Transition House “campus.” It would be contiguous to both the recently renovated 70-bed emergency shelter for families at 434 East Ortega Street and the mixed-use building Transition House owns at 425 East Cota Street with eight existing residential units over ground floor administrative offices and program space (see Attachment, Aerial Photograph). The two addresses, 421 and 425 East Cota, share one lot, which the City’s Redevelopment Agency (Agency) helped Transition House acquire in 1999 with a \$450,000 acquisition loan.

Located directly across the street is the Haagen Printing site where the Housing Authority has preliminary plans to build 56 studio units for a mix of the chronic homeless and downtown workers. Transition House and the Housing Authority will coordinate development of the two sites as much as possible. They have selected the same architect pursuant to a jointly released request for proposals. The Housing Authority will manage the construction of the Transition House project, and there is a possibility that construction may be bid jointly, should both projects be ready at the same time. Since both projects will have similar target populations, Housing Authority tenants would likely take advantage of services provided by Transition House, such as education, job training and infant care.

Proposed Predevelopment Loan

Transition House requests a predevelopment loan in the amount of \$100,000 to cover costs for architects and engineers. The proposed loan would be tailored to a predevelopment situation. For the first two years, it would be a no-interest, deferred loan. At the beginning of the third year the loan would become a fully amortized 3-percent interest loan with a 10-year term.

However, well before the beginning of the third year, it is anticipated that Transition House would proceed through predevelopment and request that the predevelopment loan be rolled over into a permanent loan from the City for development of the project. Transition House anticipates that they would need an additional \$700,000 for development of an 8-unit project, resulting in a permanent loan (and total City subsidy) of \$800,000 or \$100,000 per unit. This anticipated total subsidy level would be consistent with those for other recent affordable housing projects. Transition House also plans to seek 4-percent Low Income Housing Tax Credits and funding from the State’s Supportive Housing Program.

The proposed predevelopment loan would be secured by a deed of trust recorded in third position against the property (421 and 425 East Cota). The property was appraised in July 2006 at a value of \$5.3 million. There is sufficient equity to secure the proposed predevelopment loan, as deeds of trust for existing loans on the property total only \$1.1 million – a \$650,000 loan from Santa Barbara Bank & Trust in first position and the Agency’s \$450,000 loan in second position. Depending on the nature of the financing Transition House secures for developing the project, the City and Agency may be asked to subordinate to other financing sources.

HOME Funds

Staff recommends that federal HOME funds be used for the predevelopment loan proposed here (and also for the permanent loan anticipated later). Transition House clients would likely meet the strict income targeting required by HOME regulations and, Transition House meets certain organizational standards set by the US Department of Housing and Urban Development (HUD) and is designated as one of the City's Community Housing Development Organizations (CHDOs). HUD requires that the City spend at least fifteen percent of its annual award of HOME funds on affordable housing projects developed by CHDOs. The predevelopment loan proposed here would help meet this spending requirement.

HOME funds may only be used for the creation of affordable housing. So, the proposed predevelopment loan (and the anticipated permanent loan) could only be used for the expenses that are related to the predevelopment of the housing. Transition House will be seeking funds from the Enterprise Foundation and other foundations/organizations for the portion of predevelopment expenses related to the infant care center. Should Transition House be unable to secure outside funds for this, they can rely on an existing line of credit as a last resort.

There are sufficient HOME funds for the proposed predevelopment loan and the anticipated permanent loan. For 2008 the City has accumulated about \$1.1 million in HOME funds, and staff does not anticipate other projects seeking HOME funds in the near future.

Sustainability

Transition House plans to design an energy-efficient structure and would employ green building materials and construction techniques in their plans for new construction. The minor rehabilitation planned for the existing units would also employ green building materials and would help make the units more energy efficient. More details on these plans will be made clear upon completion of the project's design.

Conclusion

The Finance Committee reviewed the proposed loan at its meeting on April 22, 2008 and recommended that it be approved by Council. With Council approval of the proposed loan, Transition House will be able to proceed with planning for a greatly needed new affordable housing project.

ATTACHMENT: Aerial Photograph

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SUBMITTED BY: Dave Gustafson, Acting Community Development Director

APPROVED BY: City Administrator's Office

Transition House Property

